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UNCLAS SECTION 01 OF 02 ADDIS ABABA 001907

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SUBJECT: PARLIAMENT PASSES 2009/10 FEDERAL BUDGET

REF: 2008 ADDIS 3462

ADDIS ABAB 00001907 001.2 OF 002

11. (U) SUMMARY: The Ethiopian Parliament passed a federal budget of 64.5 billion birr (USD 5.2 billion) for the 2009/10 fiscal year, representing an 18.9 percent increase in nominal terms from last year. The recurrent budget increased by 14.9 percent, while federal subsidies to regional states increased by 20.1 percent. The national defense budget did not change, while capital expenditures grew by 24.3 percent, with increases going to infrastructure, energy, and agricultural development. The (GoE) defines more than 41 percent of the total budget as "pro-poor" spending, including funding for agriculture and natural resources development, road construction, education, health services, and energy. The GoE plans to finance 62 percent of the budget from domestic revenue, 22 percent from external assistance, and the balance from foreign and domestic borrowing. The stated objectives of the budget are to contain inflation, ensure the economic growth witnessed in recent years, and enhance development efforts. The majority of complaints from opposition party members stemmed from their concerns on the increases for defense, intelligence, and law enforcement spending. End Summary.

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THE BUDGET IN BRIEF  
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12. (U) Ethiopia's 2009/10 federal budget (July 2009 - July 2010) totals 64.5 billion birr (USD 5.2 billion), increasing 18.9 percent in birr terms from 2008/09. Although the new budget is higher than last year's measured in local currency, it decreased by 8.3 percent in dollar terms due to significant depreciation of the birr. (Note: The government depreciated the local currency against the US dollar by nearly 30 percent during the previous fiscal year. End note.) The budget does not include regional governments' budgets from their own revenues, state-owned enterprise budgets, or off-budget donor contributions. The budget includes capital expenditures of 29.1 billion birr (USD 2.3 billion) and a recurrent budget of 35.4 billion birr (USD 2.8 billion), including subsidies to the regional states of 20.9 billion birr (USD 1.7 billion). Major capital budget items include road construction, agriculture and natural resources development, education, health services, and energy. Sources of funding for the capital budget are the central treasury (66.7 percent), foreign assistance (21 percent), and external project loans (12.3 percent).

13. (U) The recurrent budget is 35.4 billion birr, a 14.9 percent increase from last year in birr terms. Major spending items include: subsidies to regional states at 20.9 billion birr (a 20.1 percent increase) and administration and general services at 1.8 billion birr (a 9.6 percent increase). The latter includes spending on national defense (4 billion birr), social services (3.1 billion birr), and economic services (888 million birr). Debt servicing will cost 3.3 billion birr (80 percent of which is domestic debt, and 20 percent is foreign debt). The central treasury will finance 96.1 percent of the recurrent budget, with the balance from external assistance and loans.

14. (U) Total domestic revenue is projected at 39.7 billion birr, of which tax revenue accounts for 30.2 billion. Non-tax revenue (e.g., licensing fees, service charges, residual surplus payables from government investments, interest income, capital gains) accounts for the remainder. Planned foreign budget assistance totals 14.6 billion birr, including 7.1 billion birr from the World Bank-supported Protecting Basic Services (PBS) program (reftel). The deficit will be financed by foreign gross project loans (3.8 billion birr), HIPC relief (118 million birr), and domestic borrowing (6.5 billion birr).

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ISSUES RAISED BY OPPOSITION  
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15. (U) Finance Minister Sufian Ahmed presented the proposed budget to the House of Peoples' Representatives on July 6, 2009. Minister Sufian explained that the major objectives of the budget are containing inflation, sustaining strong economic growth, improving health and education, and enhancing development. Many opposition members of parliament voiced their concerns over the increased budgets for defense, intelligence, and law enforcement agencies.

ADDIS ABAB 00001907 002.2 OF 002

Legesse Biratu (Coalition for Unity and Democracy Party) proposed cutting the defense budget by 1.5 billion birr and re-allocating the balance to the purchase of food and medicine for drought victims. Mohamed Ali (Unity for Democracy and Justice Party) expressed disappointment at the small budget allotted to the Office of Ombudsman and the Ethiopian Human Rights Commission. To this, Prime Minister Meles Zenawi responded that the commission is not a frontline organization safeguarding human rights such as the police force and the courts. Gebru Gebremariam (United Ethiopian Democratic Forces) suggested that such a large defense budget is unnecessary now that the army is no longer deployed in Somalia. Lidetu Ayalew (Ethiopian Democratic Party) voiced his concerns about balancing the budget and inflation.

16. (U) Minister Sufian stated that volatile situations in Eritrea, Somalia, and Sudan justify the defense budget. Prime Minister Meles said the budget would ensure that economic growth continues at the rate experienced over the last six years. He further noted that 70 percent of the total budget is allotted for capital expenditures that will benefit the poor. "No other African country is setting aside such a pro-poor budget allocation," said Meles, adding: "We are efficiently utilizing our meager financial resources to bring about rapid economic development." The Prime Minister described foreign assistance as unreliable, adding that Ethiopia will disassociate itself from countries that place conditions on assistance that are not compatible with Ethiopia's ideological foundations. He further noted that the GoE's prioritization of agricultural development over industry is the best cure for Ethiopia's poverty. Despite opposition criticism, the budget passed by an overwhelming majority, with 19 abstentions and no votes against.

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THE BUDGET AT A GLANCE  
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17. (U) A summary of the budget is included below:

2009/10 Budget	Increase from 2008/09
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	(Birr billions)	(Percent)
Total Budget:	64.5	18.9
Recurrent Budget:	35.4	14.9
Subsidies to Regions:	20.9	20.1
Administration:	1.8	9.6
Defense:	4.0	0.0
Debt service	3.3	(1.4)
Capital Expenses:	29.1	24.3
Road Construction:	11.7	52.9
Agriculture and Rural Development:	5.2	4.3
Education:	5.5	13.6
Health:	1.9	7.9
Mining and Energy:	0.2	
Total Domestic Revenue:	39.7	24.0
Taxes:	30.2	19.0
Non-Tax Income:	9.3	44.0
Total External Assistance	14.6	9.2
Financing	10.2	1.6
Domestic Borrowing	6.5	26.1
Foreign Borrowing	3.8	7.1

18. (U) Further detail is available from the Ministry of Finance and Economic Development at <http://mofaed.org/>.

GONZALES